

# Financial Forecast

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**This section includes:**

- ▶ *Financial Forecast for  
FY 2002 - 2003  
(Page 286)*
- ▶ *Revenue Assumptions  
(Page 288)*
- ▶ *Disbursement Assumptions  
(Page 291)*

## ***FY 2001 Adopted Budget Plan: Overview Volume***

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### **FINANCIAL FORECAST**

The Financial Forecast for FY 2002 and FY 2003 has been developed in accordance with Budget Guidelines adopted by the Board of Supervisors on April 17, 2000. These guidelines serve as an important tool in the process of budget development. As resolved by the Board, the guidelines:

1. Limit the increases in County expenditures and the County's Transfer to the Fairfax County Public Schools to the rate of increase in revenues.
2. Require that County available balances, not necessary to support expenditures of a critical nature or to address the Board's policy on the Revenue Stabilization fund, be utilized as follows:
  - One-half will be allocated to the Schools to support non-recurring requirements.
  - The remaining one-half will be allocated based on a review of paydown construction requirements or other nonrecurring requirements.
3. Direct that non-recurring funds be allocated for non-recurring uses only.

The current Financial Forecast through FY 2003 reflects these guidelines. Projections for revenue growth, based on current economic indicators and projections of economic growth over the next several years, is moderate. County revenue growth is projected at 6.35 percent in FY 2002 and 6.03 percent in FY 2003. The Real Estate tax base is estimated to increase 8.0 percent in FY 2002 and 7.0 percent in FY 2003. This growth is slightly lower than the rate achieved in FY 2001 due to an expected moderation in the residential sector as interest rates rise.

Increases in County expenditures and the transfer to the Schools have been limited to match the revenue growth rates anticipated in FY 2002 and FY 2003 in accordance with the Board's guidelines. The forecast reflects a FY 2002 deficit of \$10.02 million and a FY 2003 deficit of \$13.95 million. It should be noted that these deficits are below that of previous years as a result of adherence to the budget guidelines.

Increases associated with our growing population as well as pressures placed on County services from business expansion, State mandates, and other factors can not easily be accommodated within the current level of revenue growth. Intense competition among underfunded or unfunded programs will require difficult choices. The County will continue to be challenged in order to balance these increasing service requirements and infrastructure needs within the constraints of projected revenue growth.

## ***FY 2001 Adopted Budget Plan: Overview Volume***

### **FY 2002 - FY 2003 FINANCIAL FORECAST (millions)**

	<b>FY 1999 ACTUAL</b>	<b>FY 2000 ADOPTED</b>	<b>FY 2000 REVISED</b>	<b>FY 2001 ADOPTED</b>	<b>FY 2002 FORECAST</b>	<b>FY 2003 FORECAST</b>
Available Beginning Balance	\$48.69	\$0.00	\$43.22	\$15.30	\$0.00	\$0.00
Reserves Balance	35.73	52.12	51.92	40.47	43.00	45.60
<b>REVENUE:</b>						
Real Estate Taxes	\$943.37	\$996.71	\$998.62	\$1,082.15	\$1,168.17	\$1,719.29
Personal Property Taxes	367.91	391.35	393.28	417.62	443.70	469.83
Other Local Taxes	317.89	328.69	342.77	356.92	382.12	407.37
Permits, Fees, and Licenses	32.87	31.42	33.47	34.12	34.28	34.43
Fines and Forfeitures	7.14	8.09	7.65	11.24	11.81	12.40
Revenue from Use of Money/Property	48.01	42.43	50.92	63.21	63.21	63.21
Charges for Services	30.79	30.40	30.57	32.15	33.26	34.41
Revenue from the Commonwealth	72.25	81.64	86.52	86.41	87.78	89.18
Revenue from the Federal Govt.	31.20	30.86	33.73	39.96	40.76	41.57
Recovered Costs/Other Revenue	4.67	5.08	5.18	11.59	5.88	6.11
<b>TOTAL REVENUE</b>	<b>\$1,856.12</b>	<b>\$1,946.67</b>	<b>\$1,982.71</b>	<b>\$2,135.37</b>	<b>\$2,270.94</b>	<b>\$2,407.95</b>
<b>TRANSFERS IN</b>	<b>4.21</b>	<b>1.52</b>	<b>1.52</b>	<b>1.68</b>	<b>1.73</b>	<b>1.77</b>
<b>TOTAL RECEIPTS</b>	<b>\$1,860.32</b>	<b>\$1,948.19</b>	<b>\$1,984.23</b>	<b>\$2,137.05</b>	<b>\$2,272.67</b>	<b>\$2,409.72</b>
<b>TOTAL AVAILABLE</b>	<b>\$1,944.73</b>	<b>\$2,000.31</b>	<b>\$2,079.37</b>	<b>\$2,192.82</b>	<b>\$2,315.66</b>	<b>\$2,455.32</b>
<b>EXPENDITURES:</b>						
Personnel Services	\$383.97	\$421.16	\$419.00	\$457.92	\$486.99	\$516.37
Fringe Benefits	85.55	94.78	92.84	107.06	113.86	120.73
Operating Expenses	245.79	259.93	290.59	290.94	309.41	328.08
Capital Equipment	6.22	8.04	12.08	6.86	7.30	7.74
Work Performed for Others	(27.68)	(28.93)	(29.73)	(43.34)	(46.09)	(48.87)
<b>TOTAL EXPENDITURES</b>	<b>\$693.85</b>	<b>\$754.98</b>	<b>\$784.78</b>	<b>\$819.45</b>	<b>\$871.48</b>	<b>\$924.06</b>
<b>TRANSFERS OUT:</b>						
Schools	\$852.13	\$897.41	\$897.41	\$985.23	\$1,047.78	\$1,111.00
G O Debt (County)	94.67	95.81	94.61	94.67	100.76	105.97
G O Debt (Schools)	82.98	88.26	89.46	95.25	102.64	110.43
CSB	52.49	57.68	58.68	65.77	69.94	74.16
Metro	11.15	7.05	7.05	12.67	13.94	15.33
Paydown Construction	14.61	17.46	23.36	19.42	15.00	15.00
County Transit	20.92	18.78	18.78	15.90	19.00	23.89
Other Transfers	10.72	8.33	15.67	23.07	24.53	26.01
Information Technology	16.08	15.34	15.84	18.39	15.00	15.00
<b>TOTAL TRANSFERS OUT</b>	<b>\$1,155.74</b>	<b>\$1,206.11</b>	<b>\$1,238.82</b>	<b>\$1,330.37</b>	<b>\$1,408.60</b>	<b>\$1,496.80</b>
<b>TOTAL DISBURSEMENTS</b>	<b>\$1,849.59</b>	<b>\$1,961.09</b>	<b>\$2,023.60</b>	<b>\$2,149.83</b>	<b>\$2,280.08</b>	<b>\$2,420.86</b>
<b>ENDING BALANCE</b>	<b>\$95.15</b>	<b>\$39.22</b>	<b>\$55.77</b>	<b>\$43.00</b>	<b>\$35.58</b>	<b>\$34.47</b>
Managed Reserve	37.60	39.22	40.47	43.00	45.60	48.42
Set Aside Reserve	14.32	0.00	0.00	0.00	(10.02)	(13.95)
<b>TOTAL AVAILABLE</b>	<b>\$43.22</b>	<b>\$0.00</b>	<b>\$15.30</b>	<b>\$0.00</b>	<b>(\$10.02)</b>	<b>(\$13.95)</b>

## ***FY 2001 Adopted Budget Plan: Overview Volume***

### **REVENUE ASSUMPTIONS**

The FY 2002 and FY 2003 revenue estimates are based on a review of current and projections of future economic conditions. The economy performed well on all levels in 1999, but some components did exhibit moderation. The current national expansion is the longest in U.S. history. The economy, as measured by the Gross Domestic Product, grew 4.0 percent in 1999, slightly below the 4.3 percent registered in 1998. Unemployment and inflation remained low, however the Federal Reserve has increased interest rates six times since June 1999 in an effort to keep inflationary pressures at bay. Further economic expansion is expected in 2000, but with the trend toward moderation as consumers grow more cautious and higher interest rates slow the spending of businesses and individuals. However, it is important to note that this economic growth will not directly translate into significant revenue growth for the County. Since Current Real Estate Tax receipts represent approximately 51 percent of total General Fund revenue, it is a major driver of the total revenue increase. Residential property values, which represent 70.8 percent of the County's FY 2001 Real Estate Tax base, are projected to experience moderate growth during the forecast period due in part to rising interest rates and competition from surrounding localities where homes are less expensive. Sales activity in both the residential and non-residential markets will continue to be monitored.

Total General Fund revenues are projected to increase 6.35 percent in FY 2002 and 6.03 percent in FY 2003. This moderation is primarily due to anticipated changes in the Real Estate Tax base. The Financial Forecast assumes an overall increase in real estate values of 8.0 percent in FY 2002 and 7.0 percent in FY 2003. Total equalization, or the reassessment of existing property, is anticipated to increase 4.60 percent in FY 2002 and 4.10 percent in FY 2003. Residential values are anticipated to continue to increase moderately each year during the forecast period. In FY 2001, residential equalization rose 5.13 percent. This notable increase is a change in the trend since FY 1992 when existing residential properties declined or were only slightly positive and is an indicator of local economic expansion. Mortgage interest rates are expected to rise, but to remain relatively low by historical standards during 2001 and market competition from the surrounding localities is anticipated to be strong. Moderate increases in residential equalization is expected to continue throughout the forecast period with the values of residential properties projected to increase 4.45 in FY 2002 and 3.75 percent in FY 2003.

In FY 2001, existing nonresidential property values experienced continued growth, increasing 5.15 percent. Values of mid and high rise offices gained 6.74 percent while low rise offices increased 6.05 percent fueled in part by the County's low office vacancy rate, which was 4.8 percent at yearend 1999, up from the 4.1 percent rate registered at yearend 1998. This increase reflects construction of additional space in 1999. Commercial office properties are expected to experience moderate increases in value throughout the forecast period due to low vacancy rates and rising rental rates. As a result of the low office vacancy rate, there has been some speculative building. However, it is anticipated that "build to suit" construction will continue to dominate the commercial building market. Hotel properties, which rose 7.16 percent in FY 2001, are projected to remain strong as room rates are expected to remain stable. The combined Retail and Regional Malls categories rose modestly in FY 2001, increasing 2.34 percent. An overabundance of retail space is anticipated to restrain the growth in this category during the forecast period. Overall, existing nonresidential properties are anticipated to increase 5.0 percent in both FY 2002 and FY 2003.

In addition to equalization, the remaining increase in Real Estate value is due to new construction or normal growth. New construction is expected to increase at somewhat slower rates during the forecast period due to rising interest rates, rising 3.40 percent in FY 2002 and 2.90 percent in FY 2003.

The FY 2001 revenue estimate for Current Personal Property Tax revenues represents base growth of 6.7 percent, offset by an estimated \$1.6 million as a result of revisions in the County's FY 2001 depreciation schedule for computer equipment. Growth rates of 6.0 percent for Current Personal Property Tax revenue during the rest of the forecast period represent continued moderate growth. Based on the Personal Property Tax Act of 1998, the Virginia General Assembly approved a plan to eliminate the Personal Property Tax on vehicles owned by individuals over a five-year period. In FY 1999, the first year of implementation, taxpayers were billed for the entire amount of tax levy and received a refund of 12.5 percent of the tax on the first \$20,000 of the value of their personal vehicle from the Commonwealth of Virginia. Vehicles valued less than \$1,000 were refunded 100 percent. The Commonwealth's plan reduces the Personal Property Taxes paid by citizens by 27.5 percent in FY 2000, 47.5 percent in FY 2001, 70.0 percent in FY 2002 and 100 percent in FY 2003 with an offsetting reimbursement paid by the Commonwealth.

## ***FY 2001 Adopted Budget Plan: Overview Volume***

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Business activity is expected to remain strong in the County through the forecast period. BPOL Tax revenues are projected to increase at a base rate of 7.5 percent in FY 2001. The FY 2001 estimate also includes a \$0.5 million adjustment for the third and final phase of the elimination of BPOL Taxes on the gross receipts of software development companies as approved by the Board of Supervisors on November 24, 1997. During the forecast years, business activity is anticipated to moderate and BPOL revenues are projected to increase 7.0 percent in FY 2002 and FY 2003.

Excluding revenues from the Commonwealth of Virginia associated with the reimbursement of Personal Property Taxes, Revenue from the Commonwealth and Federal Government is expected to increase 16.2 percent in FY 2000. This increase is primarily due to 1999 Virginia General Assembly action which increased funding for the local law enforcement formula known as HB599 Funding. During FY 2001 and the forecast period, it is assumed that HB599 funding will remain at the FY 2000 level. In FY 2001, Revenue from the Commonwealth and Federal Government is expected to rise 5.1 percent primarily due to anticipated reimbursement for additional positions associated with the Adult Detention Center. During the forecast period, modest growth is expected in Public Assistance reimbursement categories, while other revenues such as ABC Tax revenues are anticipated to remain constant at FY 2001 levels. Overall growth in Revenue from the Commonwealth and Federal Government of 1.7 percent is anticipated in both FY 2002 and FY 2003.

In FY 2000, Building and Permit fee revenue is anticipated to increase 2.8 percent. This revenue is a reflection of the construction industry, as well as the size and complexity of projects submitted for review. In FY 2001, this category is expected to drop by 4.7 percent in response to climbing interest rates. These fees are anticipated to stabilize and remain at their FY 2001 level in FY 2002 and FY 2003. It should be noted that the expectation that Building and Permit fee revenue will not increase assumes a continuation of the same level of building activity projected to be achieved in FY 2001 and should not be viewed as a slowdown. Revenue growth rates in other categories such as Sales Tax receipts, Automobile Licenses, Consumer Utility taxes, Charges for Services, and Interest on Investments are shown in the following table.

## ***FY 2001 Adopted Budget Plan: Overview Volume***

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### **REVENUE GROWTH RATES**

<b>Category</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
Real Estate Tax - Assessment Base	6.33%	8.94%	8.00%	7.00%
Equalization	2.96%	5.13%	4.60%	4.10%
Residential	0.77%	5.13%	4.45%	3.75%
Nonresidential	9.24%	5.15%	5.00%	5.00%
Normal Growth	3.37%	3.81%	3.40%	2.90%
Personal Property Tax - Current <sup>1,2</sup>	7.00%	7.00%	6.00%	6.00%
Local Sales Tax	11.00%	11.00%	10.00%	10.00%
Business, Professional and Occupational, License (BPOL) Taxes <sup>3</sup>	7.50%	7.50%	7.00%	7.00%
Recordation/Deed of Conveyance	-14.27%	-0.36%	0.00%	0.00%
Automobile Licenses	3.82%	0.80%	2.30%	2.30%
Consumer Utility Taxes	7.26%	4.00%	4.00%	4.00%
Building Plan and Permit Fees	2.78%	-4.73%	0.00%	0.00%
Interest Rate on Investment Earnings	5.30%	6.08%	6.08%	6.08%
Charges for Services	-0.72%	5.17%	3.45%	3.45%
State/Federal Revenue <sup>2</sup>	16.24%	5.08%	1.72%	1.72%
<b>TOTAL REVENUE</b>	<b>6.82%</b>	<b>7.70%</b>	<b>6.35%</b>	<b>6.03%</b>

<sup>1</sup> Including revisions to the computer depreciation schedule, Personal Property Tax revenues are anticipated to grow at rates of 5.94 percent in FY 2000 and 6.32 percent in FY 2001.

<sup>2</sup> The portion of the the Personal Property Tax reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 is included in the Personal Property Tax category for the purpose of discussion in this section.

<sup>3</sup> Including the elimination of BPOL Taxes on the gross receipts of software development companies, BPOL Tax revenues are anticipated to grow 6.83 percent and 6.88 percent in FY 2000 and FY 2001, respectively.

## ***FY 2001 Adopted Budget Plan: Overview Volume***

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### ***DISBURSEMENT ASSUMPTIONS***

#### **Direct Expenditures**

As noted earlier, increases in County expenditures presented herein reflect the projected growth in County revenues. As such, direct expenditures increase 6.35 percent in FY 2002 and 6.03 percent in FY 2003. Based on the projected direct expenditure funding level, requirements associated with pay for performance, market rate adjustments, health insurance, retirement plan increases, and inflationary growth will leave little flexibility for expansion of services necessitated by population growth or new facilities. In order to provide for compensatory and inflationary increases, as well as cost requirements associated with future new facilities, reductions may be required in other parts of the County's budget in order to stay within the Budget Guidelines.

#### **Transfers Out**

##### **School Transfer**

The Financial Forecast includes an increase in the School transfer consistent with the rate of revenue growth as directed by the Budget Guidelines.

##### **Metro**

The transfer requirements for Metro Operations and Construction reflect annual increases of 10.0 percent based on projected inflationary increases for continued Metrorail and Metrobus service

##### **Debt Service**

The Debt Service requirements reflect increases required to support the level of bond sales approved by the Board of Supervisors as part of the FY 2001 - 2005 Capital Improvement Program (With Future Years to 2008). This level of funding will support bond sales of \$186.76 million in FY 2002 and \$144.88 million in FY 2003.

##### **Information Technology**

The General Fund supports the County's investment in major Information Technology (IT) initiatives. Based on a recommendation from the County's Information Technology Advisory Group, the Financial Forecast includes a \$15 million annual IT transfer.

##### **Paydown**

Paydown capital construction includes transfers from the General Fund to support construction and renovation of capital projects. The projected annual transfer for paydown construction is \$15.0 million. It should be noted that the County's paydown construction program had been severely restricted in the early and mid 1990's based on budget limitations, deferring essential maintenance and repair costs and new construction of necessary public improvements. The projected level of paydown funding through FY 2003 will provide for essential maintenance and repair in order to protect and extend the operation of County facilities.

##### **Transfer to Fairfax-Falls Church Community Services Board**

The General Fund transfer support of the Fairfax-Falls Church Community Services Board is consistent with the rate of revenue growth as directed by the Budget Guidelines.

## **FY 2001 Adopted Budget Plan: Overview Volume**

### **Information Technology**

A General Fund transfer supports the County's investment in major Information Technology (IT) initiatives. The County's Information Technology Advisory Group (ITAG), a private sector advisory group established by the County Executive to investigate the condition of the County's IT resources, recommended significant increases in County support of the IT infrastructure. Identifying a total requirement of \$95 million, the ITAG recommended annual spending of \$15 to \$20 million. The forecast includes a \$15 million annual IT transfer.

### **Other Transfers/County Transit**

Increases of 6.35 percent and 6.03 percent respectively, have been included for other transfers in FY 2002 and FY 2003. A total of \$19.00 million is included for County Transit in FY 2002 and \$23.89 million in FY 2003. This level of funding is based on a projected increase of 4.0 percent in costs associated with the CONNECTOR bus system and a 5.0 percent increase in Commuter Rail contributions. Funding has also been included as a planning factor for the purchase of buses scheduled for replacement in FY 2003. It should also be noted that the potential loss of State revenues supporting the Dulles corridor bus service will need to be met with additional General Fund support in FY 2002 and beyond which has not been incorporated into the Financial Forecast.